

Mr. KLEIN. This would have an effect through the private money market. The traditional methods that we see through open market operations and discount operations have a direct effect on the Government bill markets and bond markets, but what is being suggested through a change in reserve requirements would percolate through the money market, through private transactions as well as through the Government transactions.

Representative BROCK. But the net effect would be higher interest rates.

Mr. KLEIN. I think this would be one effect.

Representative BROCK. When you reduce the supply of money in a tight money situation you have a higher price for money, isn't that a fair statement.

Mr. KLEIN. Yes, I would agree with that.

Representative BROCK. Let's pursue another area that I think virtually all of you have raised that is most intriguing to me. I think I gathered from the gist of your testimony almost unanimously that you feel that there has to be some alternative to this current trade-off between employment and inflation, and that there can be a policy change at this level which would allow us to change the terms of the trade-off.

Professor Suits, you directed yourself specifically to this question and Professor Perry raised it also.

But I am delighted that you brought our attention to this. I think there is a method of reducing the impact of less inflation or gradual increase in inflation, reducing that effect on employment. You mentioned specifically and particularly some more training in given areas.

I would like to put this question to you. We had testimony from Secretary Shultz last week to the effect that some two-thirds of our jobs now are service related as opposed to manufacturing, and this has an impact on unemployment because this tends to be the more stable kinds of employment. Would it not be a matter of concern to you if this Government should direct itself to expanding our training programs in this particular area, for example?

Mr. SUTTS. Yes, I think so.

Representative BROCK. Is this what you are talking about, and would you elaborate?

Mr. SUTTS. Well, let's ask ourselves why we have so much price inflation when we still have well over 3 percent of the labor force unemployed.

In some European countries the unemployment rate can go as low as 1 percent of the labor force before this kind of price increase is observed.

It seems to me that the reason for the difference is that so large a proportion of our unemployed 3 or so percent, consists of employees who are extremely expensive to hire. They are untrained, uneducated, immobile. They are not located where the jobs are. In effect, in other words, our unemployment rate, measured in terms of what is really available to the employer, is much below 3.3 percent.

I suggest, therefore, that we try to convert this unemployable or expensively employable component of the labor force into higher grade workers.

Now this is not an easy program. It is a long-term program to train even one man. I feel that if we start now realizing that this is